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Supreme Court of the United States

October Term, 1977

No. 77-1252

DONOVAN CONSTRUCTION COMPANY
OF MINNESOTA,

Petitioner,

vs.

FLORIDA TELEPHONE CORPORATION,

Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FIFTH CIRCUIT

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FLORIDA TELEPHONE CORPORATION,

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PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FIFTH CIRCUIT

The Petitioner Donovan Construction Company of Minnesota ("Donovan") respectfully prays that a Writ of Certiorari issue to review the judgment and opinion of the United States Court of Appeals for the Fifth Circuit entered on December 22, 1977.

I
CITATIONS TO OPINIONS BELOW

The opinion of the district court dated November 1, 1976 is not reported. The opinion of the Court of Appeals is reported at 564 F.2d 1191 (5th Cir. 1977). These opinions are set forth as Appendices A and B. The judgment of the Fifth Circuit Court of Appeals and that court's order denying Donovan's petition for rehearing are set forth as Appendices C and D.

II
JURISDICTION

The district court entered its judgment on November 3, 1976. The judgment of the Court of Appeals was entered on December 22, 1977. The jurisdiction of this Court is invoked under 28 U.S.C. §1254(1).

III
QUESTION PRESENTED

The question presented by this Petition is whether a supplier of a utility monopolist has standing to sue for treble damages when the monopolist arbitrarily terminates a long standing business relationship with the supplier because the supplier has become a potential competitor of the monopolist with regard to some other aspect of the monopolist's business.

IV
STATUTES INVOLVED

Section 2 of the Sherman Act, 15 U.S.C. §2, provides in pertinent part:

> "Every person who shall monopolize, or attempt to monopolize, or combine or conspire . . . to monopolize any part of the trade or commerce among the several States . . . shall be deemed guilty. . . ."

Section 4 of the Clayton Act, 15 U.S.C. §15 provides:

> "Any person who shall be injured in his business or property by reason of anything forbidden in the antitrust laws may sue therefor in any district court of the United States in the district in which the defendant resides or is found or has an agent, without respect to the amount in controversy, and shall recover threefold the damages by him sustained, and the cost of suit, including a reasonable attorney's fee."

V
STATEMENT OF THE CASE

This action was commenced by Donovan against Florida Telephone Corporation ("FTC") and General Telephone Company of Florida ("GTF") for alleged violations of Sections 1 and 2 of the Sherman Act in connection with their 1972 termination of long standing business relationships with Donovan due to Donovan's entry into the interconnect business. In February 1975, Donovan and GTF arrived at a settlement and GTF was dismissed as a party. The case proceeded to trial on the issues of liability against FTC.[1]

The District Court found that Donovan failed to prove a conspiracy to restrain trade in violation of Section 1. Donovan did not contest that finding on appeal. The District Court also held that Donovan could not recover on its Section 2 monopolization and attempt to monopolize claims because, in the district court's view, FTC's termination of and refusal to deal with Donovan had no effect on the relevant market. (A-10, 19) The issues raised by the District Court's rulings on Donovan's Section 2 claims (i.e. whether FTC committed a per se violation of Section 2 and whether Donovan was injured thereby) were not even addressed by the Court of Appeals. Rather, the Court of Appeals summarily held that Donovan lacked standing to sue because Donovan, as a potential competitor of FTC, was not within the "target area," the sector of the economy threatened by a breakdown in competitive conditions. (A-22)

The facts that gave rise to this controversy are quite simple. FTC is the only telephone company that serves a central geographic region of Florida encompassing nine counties and approximately 6,000 square miles. FTC provides telephone service in that area by virtue of a Certificate of Public Convenience and Necessity issued by the Florida Public Service Commission. Within its geographic area, FTC provides local and, through interconnection with the facilities of other telephone companies, long distance telephone service.

[1] Damage issues were severed by a pretrial order dated March 14, 1975.

For many years, FTC has employed contractors to provide skilled craftsmen and equipment to assist it with the installation of underground telephone cable and other telephone equipment. Donovan, in competition with other contractors, from mid-1969 through mid-March 1972, provided FTC with skilled craftsmen and equipment for this purpose. Donovan provided similar services to GTF. (A-6) As the only operating telephone company in its geographic region, FTC was the only customer to whom Donovan could sell telephone cable splicing and installation services in that region.

As part of the provision of telephone services to its customers, FTC leases terminal telephone equipment (PBX, PABX, and key telephone systems) to its nonresidential customers. FTC was able to completely dominate this aspect of the telephone business in its region for many years by virtue of tariffs filed by AT&T with the Federal Communications Commission and tariffs filed by FTC with the Florida Public Service Commission that flatly prohibited FTC's customers from using terminal telephone equipment provided by anyone other than FTC. (A-3; R. 63-64, 158-160).

In *In re Carterfone*, 13 F.C.C.2d 420 (1968), reconsideration denied, 14 F.C.C.2d 571 (1968), the Federal Communications Commission held, *inter alia*, that such broad tariff prohibitions against the use of privately owned telephone equipment were unreasonable, discriminatory and unlawful. The

Carterfone decision, supra, and subsequent F.C.C. decisions have enabled private companies to engage in the "interconnect business" of selling or leasing terminal telephone equipment in competition with telephone operating companies.

FTC, like other telephone companies, resisted competition from private companies in the terminal equipment market. Despite the *Carterfone* decision, as late as 1971 FTC was still refusing to allow the use of privately owned terminal equipment. In fact, FTC delayed revising its tariffs until late 1971, until after it had been sued and ordered to do so. FTC was one of the last telephone companies in Florida to review its tariffs. Even the revised tariff filed by FTC required the use of unnecessary and inordinately expensive equipment and imposed exorbitant rates upon subscribers who elected to use privately owned terminal telephone equipment. (Plaintiff's Exhibit 24, p. 32). During March 1972, when FTC terminated Donovan, and through at least January 1975 (shortly before this matter was first set for trial), FTC completely dominated the terminal equipment market in its geographic region. (Plaintiff's Exhibit 27 and 28).

In late 1971, Donovan decided to enter into the "interconnect business". (A-7) In January 1972, Donovan opened an office in Tampa, Florida under the trade name of Independent Business Telephones (IBT) and began marketing terminal telephone equipment in competition with GTF in the Tampa, Florida area. During January and February 1972, Donovan made preliminary arrangements to install its own terminal telephone equipment in IBT offices in Tampa and in the offices of affiliated companies in Clearwater and Sarasota, Florida—within the area of Florida served by GTF. (Plaintiff's Exhibits 41-46). As of March 1972, Donovan had not attempted to market terminal telephone equipment in the

immediately adjacent geographic area served by FTC. (R. 280, 349). Donovan hoped to continue to provide FTC with skilled craftsmen as it had done for the preceding 2-1/2 years and hoped to sell FTC imported terminal telephone equipment. (R. 280, 349).

On February 18, 1972, shortly after GTF became aware of Donovan's entry into the interconnect business and without advance warning or notice, GTF terminated all of Donovan's installation and splicing craftsmen. (R. 255). Two weeks later on March 3, 1972, without advance warning or notice, FTC began terminating Donovan's craftsmen. By March 17, 1972, FTC had terminated Donovan's entire work force and Donovan had been driven out of the installation and splicing business in both GTF's and FTC's geographic regions with the resulting loss of substantial revenues. (R. 270, 282-283, 398, 405-406.)

During the trial, Donovan introduced evidence that FTC terminated and refused to deal with Donovan because Donovan had surfaced as a potential competitor into interconnect business. For example:

(1) Donovan's President, John Donovan, testified that Claude Locke, FTC's Vice President of Operations, (the person who decided to terminate Donovan), told him that FTC would not contract with competitors (R. 394-395);

(2) Donovan's Vice President, S.V. Christenson, testified that Claude Locke, during a meeting on March 24, 1972, told him that Donovan had been terminated because of its entry into the interconnect business (R. 349-351);

(3) Donovan's Florida supervisor, Robert Berroyer, testified that James Davis, FTC's outside plant superintendent (the person who recommended and implemented FTC's decision to terminate Donovan), told him that Donovan was no

friend of and was no longer welcome at FTC because Donovan had entered the interconnect business (R. 274);

(4) A contemporaneous note made by Robert Berroyer during that conversation states:

> "We went into the interconnect business. Therefore, you are not welcome at FTC." (Plaintiff's Exhibit 48, R. 274-275).

(5) Jack Logan, a former Donovan supervisor, testified that he was told by Keith Ellis, FTC's construction supervisor, that Donovan was going to be terminated because Donovan had entered the interconnect business. (R. 230-231).

FTC's representatives testified in effect that Donovan's termination was due primarily to Donovan's performance. However, other evidence completely discredited this testimony. For example, for the two months preceding Donovan's termination, FTC had steadily increased the size of Donovan's splicing and installation crews. (R. 282-283). Upon Donovan's termination, the majority of Donovan's supervisors and craftsmen were employed by Donovan's competitors and continued to provide the same services to FTC, but at higher rates than were charged by Donovan.[2]

At the time of its termination by FTC, Donovan was a viable potential competitor of FTC. The district court clearly recognized this fact. For example, at page 6 of its Opinion (A-7) the district court acknowledged that when Donovan made the decision to enter the interconnect business in December 1971, Donovan became a potential competitor of FTC. Again at page 13 of its Opinion (A-14), the district court observed that Donovan was a "potential entrant" in the interconnect business in FTC's region.

[2] Plaintiff's Exhibits 30-34 and 49-51.

Donovan was both prepared and able to enter into the interconnect business in FTC's region. Donovan is a subsidiary of a publicly held, well financed corporation. It had extensive experience in the installation of telephone equipment prior to the time it decided to enter into the interconnect business. It had provided trained personnel to install terminal telephone equipment for GTF and FTC, as well as other telephone companies, for a number of years prior to the time it decided to enter the interconnect business. Donovan had actually entered the interconnect business in January, 1972, in Tampa, Florida and began its marketing efforts in that area.

In addition, shortly after FTC's termination of Donovan, Donovan did engage in the interconnect business in FTC's area. During 1972, commencing only a few months after its termination, Donovan's IBT division placed three interconnect systems in FTC's region. (Plaintiff's Exhibit 28, p. 2) In January 1974, Donovan also placed a fourth IBT telephone system in FTC's region. (Plaintiff's Exhibit 28, p. 4).

Finally, FTC viewed Donovan as a potential competitor. Mr. Berroyer, Donovan's Florida supervisor, testified that FTC's Vice President of Operations specifically expressed the view that although Donovan was not competing with FTC prior to the termination, it was ". . . only a matter of time. . ." until Donovan would be an active competitor in FTC's region. (R. 280)

In sum, Donovan's interconnect business was a fledgling business in its very formative stages when FTC summarily severed its long standing business relationship with Donovan. Donovan was prepared to compete, had the capacity to compete and ultimately in fact competed with FTC. Moreover, FTC viewed Donovan as a potential competitor unworthy, for that reason, of maintaining a continuing business relationship with

FTC. FTC's action drove Donovan out of the installation and splicing business in FTC's region and deprived Donovan of substantial revenues.

VI
REASONS FOR GRANTING THE WRIT

A. Introduction

Section 4 of the Clayton Act allows any person "injured" in his business or property "by reason of" anything forbidden by the antitirust laws to sue for treble damages. This statute is a broad remedial statute that was intended by Congress to deter violators and to compensate victims for their injuries. *Pfizer, Inc. v. Government of India,* —— U.S. ——, 98 S. Ct. 584, (1978) The Section has been repeatedly described as ". . . comprehensive in its terms and coverage, protecting all who are made victims of the forbidden practices by whomever they may be perpetrated." *Pfizer, Inc.*, supra, 98 S. Ct. at 587; *Manderville Island Farms, Inc. v. American Crystal Sugar Co.*, 334 U.S. 219, 236 (1948).

Yet the lower federal courts, under the rubric of "standing to sue", and encouraged by this Court's repeated refusal to curb their activities, have imposed confusing and conflicting limitations upon the express provisions of Section 4. As recently stated by the Court of Appeals for the Sixth Circuit, the question of a private plaintiff's standing to sue under Section 4 ". . . has been and continues to be troublesome to the courts . . . ." *Malamud v. Sinclair Oil Corp.*, 521 F.2d 1142, 1146 (6th Cir. 1975). The precedents are difficult to reconcile and there simply is no rule of general application for determining when an injury was caused "by reason of" something forbidden by the antitrust laws. *Antitrust Law Developments* (1975) p. 260.

In the Petitioner's view, it is time for this Court in this case to define the criteria if any, a private plaintiff must meet in order to satisfy the "by reason of" provision of Section 4 and have standing to sue for treble damages. This Court should finally eliminate the confusion that exists between and among the various Circuit Courts and the resulting disparity of treatment afforded private litigants. At present, a plaintiff's standing to sue depends as much upon venuing the action in a favorable forum as upon any other factor.[3] A private plaintiff who must sue within the Fifth Circuit is particularly unfortunate. That Circuit Court harshly applies the so-called "target area" standing test in a manner that narrowly restricts the scope of Section 4, deprives private plaintiffs of their antitrust

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[3] Compare: *In Re Western Liquid Asphalt Cases,* 487 F.2d 191 (9th Cir. 1973), cert. denied, 415 U.S. 919 (1974) with *Jeffrey v. Southwestern Bell,* 518 F.2d 1129 (5th Cir. 1975), for conflicting holdings with regard to indirect purchases standing to sue; *Mulvey v. Samuel Goldwyn Productions,* 433 F.2d 1073 (9th Cir. 1970), cert. denied 402 U.S. 923 (1971), with *Fields Productions, Inc. v. United Artists Corp.,* 318 F.Supp. 87 (1969), aff'd, 432 F.2d 1010 (2nd Cir. 1970), cert. denied 401 U.S. 949 (1971), for conflicting holdings with regard to a seller's standing to challenge block booking arrangements; *Steiner v. 20th Century-Fox Film Corp.,* 232 F.2d 190 (9th Cir. 1956), and *Congress Building Corp. v. Loew's, Inc.,* 246 F.2d 587 (7th Cir. 1957), with *Harrison v. Paramount Pictures, Inc.,* 115 F.Supp. 312 (E.D.Pa. 1953), aff'd., 211 F.2d 405 (3rd Cir.), cert. denied, 348 U.S. 828 (1954), and *Melrose Realty Co. v. Loew's, Inc.,* 234 F.2d 518 (3rd Cir.), cert. denied, 352 U.S. 890 (1956), for conflicting holdings with regard to a theater lessor's standing to sue; *Volasco Products Co. v. Lloyd A. Fry Roofing Co.,* 308 F.2d 383 (6th Cir. 1962), cert. denied, 372 U.S. 907 (1963), with *South Carolina Council of Milk Producers, Inc. v. Newton,* 360 F.2d 414 (9th Cir.), cert. denied, 385 U.S. 934 (1966), for conflicting holdings with regard to the standing of suppliers to sue.

claims, and completely frustrates the broad remedial purposes of the antitrust laws.[4]

It is particularly appropriate for this Court to review the Court of Appeals decision in this case. Here the Court of Appeals summarily applied the "target area" standing test to sanction predatory, blatantly anticompetitive conduct of a monopolist that was aimed directly at Donovan and that completely destroyed a substantial segment of Donovan's business solely because Donovan was a potential competitor, rather than an actual competitor, when the predatory act was committed. Here, the company that dealt directly with the monopolist, that was the target of the predatory conduct and that felt its full impact has been denied the right to sue.

B. The Circuit Courts Apply Conflicting Criteria For Determining Standing Under Section 4.

The "troublesome nature" of the question of standing to sue under Section 4 has resulted in the articulation and application by the various Circuit Courts of at least four diverse tests for

[4] For example, since April 1974, the Fifth Circuit Court of Appeals decided ten cases under the "target area" test. In eight cases, including this case, the plaintiffs have been denied standing. See, *Burleigh House Condominium, Inc. v. Buchwald*, 546 F.2d 57 (5th Cir.), cert. denied, 97 S.Ct. 2975 (1977); *Southern Concrete Company v. United States Steel Corporation*, 535 F.2d 313 (5th Cir. 1976), cert. denied, 97 S.Ct. 1113 (1977); *Buckley Towers Condominium, Inc. v. Buchwald*, 533 F.2d 934 (5th Cir. 1976), cert. denied, 97 S.Ct. 1157 (1977); *Jeffrey v. Southwestern Bell*, 518 F.2d 1129 (5th Cir. 1975); *M. C. Manufacturing Co., Inc. v. Texas Foundries, Inc.*, 517 F.2d 1059 (5th Cir. 1975), cert. denied, 424 U.S. 968 (1976); *Kestenbaum v. Falstaff Brewing Corp.*, 514 F.2d 690 (5th Cir. 1975), cert. denied, 424 U.S. 943 (1976); *Shumate & Co., Inc. v. National Association of Securities Dealers, Inc.*, 509 F.2d 147 (5th Cir. 1975), cert. denied, 423 U.S. 868 (1976). The only two cases where standing has been found are *Yoder Bros., Inc. v. California-Florida Plant Corp.*, 537 F.2d 1347 (5th Cir. 1976), cert. denied, 97 S.Ct. 1109 (1977), and *Hennessey v. National Collegiate Athletic Ass'n.*, 564 F.2d 1136 (5th Cir. 1977).

determining whether a plaintiff has been injured by reason of conduct prohibited by the antitrust laws. They have been labeled as the "direct injury" test, the "target area" test, the "zone of interests" test, and the "entire factual matrix" test.

The "target area" test has prevailed in the Fifth Circuit for a number of years. Under the Fifth Circuit's version of the "target area" test, as articulated by the Court in this case, a plaintiff must show, in addition to injury, that he is within the area of the economy that is threatened or endangered by a breakdown in competitive conditions. (A-22) This test of standing has often been endorsed by the Fifth Circuit. For example, in *Daily v. Quality School Plan, Inc.*, 380 F.2d 484, at 487 (5th Cir. 1967), the Court stated:

> "If a plaintiff can show himself within the sector of the economy in which the violation threatened a breakdown of competitive conditions and that he was proximately injured thereby, then he has standing to sue under section 4. . . ."

Similarily, in *Battle v. Liberty National Life Insurance Co.*, 493 F.2d 39, at 49 (5th Cir .1974), cert. denied, 419 U.S. 1110 (1975), the Fifth Circuit Court of Appeals stated:

> "Without attempting to carefully categorize all the cases in which this problem has been presented, the courts in articulating such limitations have relied on phrases like 'direct' injury, or whether the plaintiffs' business falls within the 'target area' of defendants' supposedly illegal commercial activity. In this circuit, the limitation of this principle has been stated as requiring the plaintiff to show that he is 'within the sector of the economy in which the violation threatened a breakdown of competitive con-

ditions and that he was proximately injured thereby. . . .'"

See the additional Fifth Circuit cases cited in note 4, page 12, infra.

The Ninth Circuit Court of Appeals has also applied the "target area" test for purposes of determining standing. See *Karseal Corp. v. Richfield Oil Corp.*, 221 F.2d 358 (9th Cir. 1955); *Twentieth Century Fox Film Corp. v. Goldwyn*, 328 F.2d 190 (9th Cir. 1964), cert. denied, 379 U.S. 880 (1965); *In Re Multidistrict Vehicle Air Pollution, M.D.L. No. 31*, 481 F.2d 122, 127-128 (9th Cir. 1973), cert. denied, 414 U.S. 1045 (1974). As stated in *Karseal*, supra, ". . . the rule is that one who is only *incidentally* injured by a violation of the antitrust laws,—the bystander who was hit but not aimed at,—cannot recover against the violator. . . ." 221 F.2d at 363 (Citations omitted.) In the *Twentieth Century* case, supra, the Ninth Circuit explained:

> ". . . [I]n using the words 'aimed at' this court did not mean to imply that it must have been a purpose of the conspirators to injure the particular individual claiming damages. Rather, it was intended to express the view that the plaintiff must show that, whether or not then known to the conspirators, plaintiff's affected operation was actually in the area which it could reasonably be foreseen would be affected by the conspiracy." 328 F.2d at 220.

Other circuits that apparently apply the "target area" test or some version thereof are the Second Circuit, the Fourth Circuit and the Eighth Ciricuit. See *Calderone Enterprises Corp. v. United Artists Theater Circuit, Inc.*, 454 F.2d 1292 (2nd Cir. 1971), cert. denied, 406 U.S. 930 (1972); *South*

Carolina Council of Milk Producers, Inc. v. Newton, 360 F.2d 414, 418 (4th Cir.), cert. denied, 385 U.S. 934 (1966); *Sanitary Milk Producers v. Bergjans Farm Dairy, Inc.*, 368 F.2d 679, 689 (8th Cir. 1966).

The "target area" test has also on occasion, but not consistently, been applied by the Third Circuit Court of Appeals, See *International Association of Heat and Frost Insulators and Asbestos Workers, Etc. v. United Contractors Ass'n., Inc. of Pittsburgh, Pa.*, 483 F.2d 384 (3rd Cir. 1973), amended, 494 F.2d 1353 (3rd Cir. 1974). However, prior to the decision in *International*, supra, the Third Ciricuit had consistently applied the "direct injury" test for determining standing. The "direct injury" test was first articulated by the Third Circuit in *Loeb v. Eastman Kodak Co.*, 183 Fed. 704 (3rd Cir. 1910). In that case, the court denied standing to a shareholder of an injured corporation, stating:

> ". . . it is manifest that the plaintiff did not receive any direct injury from the alleged illegal acts of the defendant. No conspiracy or combination against him as a stockholder or creditor is alleged. The injury complained of was directed at the corporation, and not the individual stockholder. Hence any injury which he, as a stockholder, received was indirect, remote, and consequential." 183 Fed. at 709.

The decision introduced the notion of privity to the analysis of a person's standing to sue under the antitrust laws. *In re Multidistrict Vehicle Air Pollution, M.D.L. No. 31*, supra, 487 F.2d at 127. Thus, the "direct injury" test has been said to require

> ". . . an analysis of the relationship between the claimant and the alleged antitrust violator; if the victim and

> the perpetrator are separated by an intermediary party, standing usually is denied." Bean, *Antitrust Standing and Passing On*, 26 Baylor L. Rev. 331, at 333 (1974).

Additional Third Circuit cases where the direct injury test has been applied include *Ash v. International Business Machines, Inc.*, 353 F.2d 491 (3rd Cir. 1965), cert. denied, 384 U.S. 927 (1966), and *Kauffman v. Dreyfus Fund, Inc.*, 434 F.2d 727 (3rd Cir. 1970), cert. denied, 401 U.S. 974 (1971).

Like the Third Circuit, the Sixth Circuit has usually been regarded as having adopted the "direct injury" test for purposes of determining standing under section 4 of the Clayton Act. *Volasco Products Company v. Lloyd A. Fry Roofing Company*, 308 F.2d 383 (6th Cir. 1962), cert. denied, 372 U.S. 907 (1963); but see *Malamud*, supra, 521 F.2d at 1151. The Tenth Circuit and the First Circuit have also applied the "direct injury" standing test. See *Reibert v. Atlantic Richfield Co.*, 471 F.2d 727, 729, 731 (10th Cir.), cert. denied, 411 U.S. 938 (1973); *Miley v. John Hancock Mutual Life Insurance Co.*, 148 F.Supp. 299, 302 (D. Mass. 1957), aff'd. per curiam, 242 F.2d 758 (1st Cir.) cert. denied, 355 U.S. 828 (1957).

However, in recent years both the Third Circuit and the Sixth Circuit appear to have abandoned the direct injury standing test. The Third Circuit did so in *Cromar Co. v. Nuclear Materials & Equipment Corp.*, 543 F.2d 501 (3rd Cir. 1976), where that Court adopted the "entire factual matrix" approach to resolving standing questions. There, the third Circuit stated:

> "Determining in each case whether a plaintiff suing under § 4 of the Clayton Act is one 'whose protection is the fundamental purpose of the antitrust laws' and therefore has standing is fraught with difficulty. By too narrowly limiting that class of plaintiffs the judiciary would be weakening the enforcement remedy created by Congress for ensuring 'strong competition.' On the other hand, allowing the words of § 4 to be applied literally might 'result in an overkill . . . for exceeding that contemplated by Congress.'
>
> *Each case therefore, must be carefully analyzed in terms of the particular factual matrix presented. In making this factual determination courts must look to, among other factors, the nature of the industry in which the alleged antitrust violation exists, the relationship of the plaintiff to the alleged violator, and the alleged effect of the antitrust violation upon the plaintiff. Then, while recognizing that breaches of the antitrust laws have effects throughout society, a court must decide whether this plaintiff is one 'whose protection is the fundamental purposes of the antitrust laws.'*
>
> * * *
>
> Thus, we do not believe that the issue of Cromar's standing to assert its §2 Sherman Act claim may be resolved, as the parties urge, upon our application of either one test or another. Rather, as we understand the law of this Circuit, a detailed analysis on a case by case basis of the factual context presented is required so as to preserve the effectiveness of the treble damage remedy without overextending its availability. The plaintiffs' relationship to the alleged violator of the antitrust laws—the directness or indirectness of the injury—as well as the plaintiffs' position in the area of the economy threatened by the alleged anticompetitive acts are among the factors to be considered in resolving standing. *No single formula captures the many considerations involved in determining*

whether the plaintiff is one 'whose protection is the fundamental purpose of the antitrust laws.'" (Emphasis added, citations omitted.) 543 F.2d at 506 and 508.

The Third Circuit recently reaffirmed its decision to resolve standing questions on a case by case basis in *Bravman v. Bassett Furniture Industries*, 552 F.2d 90 (3rd Cir. 1977). There, the Third Circuit stated that labels should be avoided:

". . . in favor of examination of the factual matrix presented by each case in light of the policies underlying the antitrust laws. . . . that approach recognizes that §4 standing analysis is essentially a balancing test comprised of many constant and variable factors and that there is no talismanic test capable of resolving all §4 standing problems." 552 F.2d at 99.

However, another recent Third Circuit decision may cast some doubt on that Court's approach resolving questions of standing. In *Bogosian v. Gulf Oil Corp.*, 561 F.2d 434 (3rd Cir. 1977), the Third Circuit held that service station operators who did not directly deal with oil companies had standing to sue oil companies for restraining price competition at the wholesale level of distribution. According to the Court, the dealers' injury was "immediate, direct and proximate consequence of defendants' actions" and "[s]ince the unlawful practices of which plaintiffs complain were imposed directly upon them, they are the logical suitors to vindicate the antitrust laws." 561 F.2d at 448. In a footnote to its opinion, the Third Circuit equated standing under Section 4 with the concept of proximate cause, stating:

"The policy of limiting liability implicit in §4 which has evolved under the rubric of 'standing,' however, is a con-

cept of personal stake necessary to establish article III jurisdiction. Our discussion here deals only with the former concept which has been misnamed 'standing.'" 561 F.2d at 447 n. 6.

The Sixth Circuit has also now abandoned the direct injury test. In *Malamud v. Sinclair Oil Corp.*, supra, the Sixth Circuit stated that it believed it was appropriate to resolve Section 4 standing questions in accordance with the "zone of interest" standing test recognized in a non-antitrust context by this Court in *Association of Data Processing Service Organization, Inc. v. Camp*, 397 U.S. 150 (1970), stating:

"We believe that the test to be applied in an antitrust action is the one expressed by the Supreme Court in *Association of Data Processing Service Organizations, Inc. v. Camp*, [387 U.S. 150]. . . .

The First prong of the *Data Processing* test is that the plaintiff alleged that the defendant caused him injury in fact. . . . The second criterion, according to *Data Processing*, is 'whether the interest sought to be protected by the complainant is arguably within the zone of interests to be protected or regulated by the statute or constitutional guarantee in question.'" 521 F.2d at 1151.

Thus, in *Malamud*, supra, the Sixth Circuit held that real estate investment companies had standing to assert that an oil company had violated the antitrust laws by refusing to financially assist them to acquire and develop service station sites. The investment companies alleged that Sinclair sought to maintain the status quo for the marketing of petroleum products and, to that end, breached their financial agreement with the investment companies. According to the Court, the interest sought to be protected by the real estate firms was the expansion of their business by the acquisition and develop-

ment of additional service station sites and the denial of financing arguably came within the zone of interest sought to be protected by the Sherman and Clayton Acts.

The present position of the Seventh Circuit on the standing issue is difficult to ascertain. The most recent case in that Circuit appears to be *State of Illinois v. Ampress Brick Co., Inc.*, 536 F.2d 1163 (7th Cir.), reversed sub nom on other grounds, 96 S.Ct. 2061 (1976). There the Seventh Circuit cited *Association of Data Processing* and *Malamud*, supra, and stated that to establish standing a plaintiff must show injury in fact that is " 'arguably within the zone of interests to be regulated by the statute.' " 536 F.2d at 1164. Yet in holding that indirect purchasers had standing to sue, the Seventh Circuit relied upon the Ninth Circuit's decision in *In Re Western Liquid Asphalt Cases*, 487 F.2d 191 (9th Cir. 1973), cert. denied, 415 U.S. 919 (1974), stating:

> "The plaintiffs here have alleged an injury in fact and are within the target area. . . . [t]hey have shown that they were 'within the area of the economy which [defendants] reasonably could have or did foresee would be endangered by the breakdown of competitive conditions.' " 536 F.2d at 1167.

There can be no doubt that various approaches taken by the Circuit Courts to the matter of standing have resulted in confusion and conflicting decisions. See *In Re Multidistrict Vehicle Air Pollution, M.D.L. 31*, supra, 481 F.2d at 126, and note 6, *supra*. Indeed, had this case arisen in the Third Circuit or in the Sixth Circuit, Donovan's standing to sue would not have been in doubt. Under the principles of *Cromar* and *Bravman*,[5] supra, the Third Circuit would have examined the nature of the industry involved, the relationship between Donovan and FTC and the impact of FTC's conduct upon Donovan. In addition, both the Third Circuit under these cases and the Sixth Circuit under *Malamud*, supra, would have ascertained whether Donovan was one whose protection was fundamental to the purposes of the antitrust laws.

The telephone industry, and particularly the terminal equipment segment of the industry, has been monopolized for decades by operating telephone companies. Since the *Carterfone* decision in 1968, however, it has been clear that continued monopolization of the terminal equipment segment of that industry is contrary to express national policy. Open, fair competition in that industry is to be encouraged; not discouraged by predatory acts of the monopolists. Thus, the emerging nature of the industry would favor awarding standing to a potential competitor. Secondly, Donovan had a firsthand relationship with FTC prior to its termination. Donovan then dealt directly with FTC and after its termination, Donovan competed directly with FTC. Finally, as a potential competitor and later as an actual competitor of FTC in an area of the economy that FTC dominated, Donovan is clearly entitled to the protection of the antitrust laws. What better way could exist for FTC to preserve its monopoly than to be able to

[5] The standing issue in this case is closely akin to the standing issue as presented in the *Bravman* case, supra. There, the Third Circuit held that a former agent-employee of Bassett Furniture who became a competitor of Bassett *after* he was terminated because he refused to handle Bassett Furniture products exclusively had standing, under the "target area" test as well as under the "competitors only" standing test, to sue Bassett for its anticompetitive activities. *Bravman*, supra, 552 F.2d at 100-101. Similarly, Donovan, first as a potential competitor and later as an actual competitor of FTC, has standing to challenge FTC's predatory conduct.

freely attempt to discourage potential competition as it did in this case. As pointed out in *Pessin v. Keeneland Association*, 45 F.R.D. 10, at 15 (E.D.Ky. 1969):

> "To argue that no one other than an active competitor in a given business could attack a monopoly would be to deny the whole purpose and spirit of the antitrust laws. Such reasoning is entirely untenable. All monopolies would be secure in their monopoly if they could only be attacked by competitors."

In the instant case the Fifth Circuit summarily held that Donovan lacked standing to sue under the "target area" standing test because Donovan did not deal in the interconnect business, or intend to do so,[6] in FTC's region at the time of its termination. (A-22) In doing so, the Court of Appeals completely ignored the following critical facts: FTC viewed Donovan as a potential competitor and terminated Donovan for that reason; Donovan was in fact a potential competitor by virtue of its business acumen, resources and interconnect activities in GTF's adjoining region; and that Donovan actually entered that market following its termination to attempt to compete with FTC. There is certainly no one more qualified than Donovan to challenge FTC's anticompetitive activities.

C. Present Confusion On The Standing Issue Frustrates The National Policy Of Effective Antitrust Law Enforcement.

The decision of the Court of Appeals in this case is flatly contrary to the national antitrust policy anticulated by this Court on many occasions. In *Zenith Radio Corp. v. Hazeltine*

[6] The Court's finding in this regard and the district court's observations below to the same effect are contrary to the record. (Petition For Rehearing, pages 6-10).

Research, Inc., 395 U.S. 100, 130-131 (1969), this Court stated that ". . . the purpose of giving private parties treble-damages and injunctive remedies was not merely to provide private relief, but was to serve as well the high purpose of enforcing the antitrust laws." In *Fortner Enterprises, Inc. v. United States Steel Corp.*, 394 U.S. 495, 502 (1969), this Court emphasized that ". . . Congress has encouraged private antitrust litigation not merely to compensate those who have been directly injured but also to vindicate the important public interest in free competition." Very recently, in *Pfizer, Inc., supra,* in holding that foreign governments are "persons" within the ambit of Section 4, this Court reemphasized that Section 4 has an "expansive remedial purpose" and that ("[t]he Act is comprehensive in its terms and coverage, protecting all who are made victims of the forbidden practices by whomever they may be perpetrated.") 98 S.Ct. at 587. Even in *Illinois Brick Co. v. Illinois*, —— U.S. ——, 97 S.Ct. 2061 (1977), where this Court held that indirect purchasers could not rely on a pass-on theory to establish injury under Section 4, this Court recognized that effective enforcement of the antitrust laws can best be accomplished by allowing full recovery by those plaintiffs who have dealt directly with the defendant.

This Court has also repeatedly cautioned against restrictive interpretations of Section 4 that would defeat the two fold purpose of Section 4. *Pfizer, Inc. supra*, 98 S.Ct. at 588. In this regard, in *Radovich v. National Football League*, 352 U.S. 445 (1957), this Court held that a professional football player who allegedly was denied employment because of a blacklisting agreement which was the result of conspiracy to monopolize commerce in professional football could sue. In doing so, this Court reasoned:

"Petitioner's claim need only be 'tested under the Sherman Act's general prohibition on unreasonable restraints of trade,' . . . and meet the requirement that petitioner has thereby suffered injury. Congress has, by legislative fiat, determined that such prohibited activities are injurious to the public and has provided sanctions allowing private enforcement of the antitrust laws by an aggrieved party. These laws protect the victims of the forbidden practices as well as the public. . . . Furthermore, Congress itself has placed the private antitrust litigant in a most favorable position through the enactment of §5 of the Clayton Act. . . . *In the face of such a policy this Court should not add requirements to burden the private litigant beyond what is specifically set forth by Congress in those laws.*" 352 U.S. at 453-454. (Emphasis added, citation omitted.)

The application of the "target area" standing test in this case is directly contrary to the liberal interpretation of Section 4 of the Clayton Act mandated by *Radovich*, supra, and emphasized in *Pfizer, Inc.*, supra. Moreover, it completely frustrates the policy of effective enforcement of the antitrust laws reiterated in *Illinois Brick*, supra, by denying any right of recovery to the one who dealt directly with the monopolist and who felt the full impact of the monopolist's predatory act.

In this case Donovan proved an antitrust violation by a monopolist—a deliberate predatory anticompetitive act, and direct injury to Donovan's business or property—the destruction of its installation and splicing business in FTC's region—by reason of that violation. Nothing more should be required under Section 4, and additional obstacles to standing embodied in the "target area" test as applied in this case should not

be endorsed by this Court. As stated in *Malamud* and *Camp*, supra, as long as the challenged injury caused injury in fact, and as long as the interest sought to be protected is within the zone of interests to be protected under this statute, adequate standing exists to pursue the claim. 521 F.2d at 1151-1152; 397 U.S. at 152-153.

D. Issuance Of The Writ Of Certiorari In This Case Would Complement Other Efforts To Promote Competition In The Terminal Telephone Equipment Market.

Review of the decision of the Fifth Circuit Court of Appeals in this case is particularly appropriate. This case involves an attempt by a private company to become an active, competitive force in an area of the economy that has been monopolized for decades by operating telephone companies. Prior to the *Carterfone* decision, supra, by the Federal Communications Commission in 1968 operating telephone companies controlled the sale, lease and use of all telephone equipment in their respective areas. Those companies, including FTC, did so by virtue of tariffs that they prepared and filed with the F.C.C. and state regulatory bodies that absolutely prohibited the interconnection of privately owned telephone equipment to telephone operating company facilities. The F.C.C. in *Carterfone*, supra, squarely determined that such tariff provisions were unreasonable, unjustly discriminatory and in violation of Sections 201 and 202 of the Communications Act (47 U.S.C. §201 and §202).

In subsequent decisions, the F.C.C. has continued to attempt to remove obstacles to free and open competition in the terminal telephone equipment market. For example, tariffs filed by operating companies including FTC following *Carter-*

fone, supra, required the use of telephone company supplied connecting arrangements and network control signals units.[7] The F.C.C., in Docket No. 19528, undertook to study the technical justification for requiring the use of this equipment. On November 7, 1975, the F.C.C. issued its First Report and Order in that proceeding. The F.C.C. found in most instances requiring the use of such devices was unwarranted and the F.C.C. established a program whereby registered terminal equipment could be interconnected without the use of such devices. 56 F.C.C.2d 593 (1975).

In a Second Report and Order in that proceeding dated March 18, 1976, the F.C.C. further found that the tariff requirements of connecting main telephones, PBX and key telephone equipment solely through telephone company-provided connecting arrangements are also unlawfully restrictive of the customer's right to use the telephone network in a manner which is privately beneficial without being publicly harmful. The F.C.C. further concluded that no valid legal or technical basis supports the exclusion of main telephones, PBX and key telephone equipment from the terminal equipment registration program authorized in its First Report. 58 F.C.C.2d 736 (1976). Pursuant to the Second Report and Order registered PBX and key system equipment could be connected to the telephone network effective August 1, 1976 and January 1, 1977, respectively, without the necessity of telephone company-supplied connecting arrangements. Both the First and Second F.C.C. reports and related orders were recently affirmed by the Fourth Circuit Court of Appeals in *North Carolina Utilities Commission, et al v. F.C.C.*, 552 F.2d 1036 (4th Cir. 1977). An appeal to this Court is presently pending.

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[7] F.T.C.'s General Exchange Tariff Section 38, Original Sheet 4(w), Paragraphs B, D, E, and F requires the use of such devices. Plaintiff's Exhibits 24, pp. 11-14, 19-27; Plaintiff's Exhibit 25, pp. 5-8, 13-21; R. 158-161

The F.C.C. has also been confronted with attempts by state regulatory agencies to prohibit interconnection of privately supplied terminal equipment unless that equipment is used exclusively for interstate communication. Since complete separation of the use of equipment between intra and inter-state communication is a practical and economic impossibility, these proposed state rules would have completely scuttled federal interconnection policy. In *In the Matter of Telerant Leasing Corp.*, 45 F.C.C.2d 204 (1974), the F.C.C. held that state regutory commissions were precluded from regulating or restricting interconnection in a manner that conflicted with F.C.C. regulations governing the same equipment. The F.C.C.'s action in this regard was affirmed in *North Carolina Utilities Commission v. F.C.C.*, 537 F.2d 787 (4th Cir.), cert. denied, 97 S.Ct. 651 (1976).

In short, it is absolutely clear that the federal communications policy, expressed by the F.C.C. and sustained by the Circuit Court, is to eliminate the operating telephone company monopoly over terminal telephone equipment market and to encourage competition in this sector of the economy. Yet by terminating Donovan, FTC effectively served notice on other potential competitors that FTC, despite this express national policy, still regards the terminal equipment market in its region as its private domain. It simply flies in the face of express federal communications and antitrust policy to conclude, as the lower courts have done in this case, that Donovan—as both a potential and actual competitor of FTC—lacks standing to sue FTC for predatory conduct directed at Donovan and designed and intended to discourage competition in the terminal equipment market. Thus, this case presents this Court with a unique opportunity to assist in effectuating na-

tional policy in this area of the economy as well as to eliminate the confusion and uncertainty that exists with regard to standing to sue under Section 4 of the Clayton Act.

VII
CONCLUSION

The Fifth Circuit's decision in this case, if left unreviewed, announces to the world that a monopolist is free to destroy the established business of a potential competitor for the purpose of discouraging competition and completely escape antitrust liability. This case presents this Court with an opportunity to condemn such conduct and to clarify and strengthen the nation's antitrust policy by eliminating the confusion with regard to standing to sue that has plagued the courts and litigants for years.

The Petitioner requests that the Writ of Certiorari issue.

Dated: March 7, 1978

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APPENDIX A

IN THE UNITED STATES DISTRICT COURT
FOR THE MIDDLE DISTRICT OF FLORIDA
TAMPA DIVISION

Civil Action No. 72-733 T-K

DONOVAN CONSTRUCTION COMPANY
OF MINNESOTA, a Corporation,
Plaintiff

v.

FLORIDA TELEPHONE CORPORATION,
Defendant.

OPINION

MILLER, J.
Sitting by Assignment.

Donovan Construction Company (Donovan) brings this action against the Florida Telephone Corporation (FTC)[1] contending that the latter's termination of business dealings with the former violates sections 1 and 2 of the Sherman Antitrust Act. The suit, being bifurcated by order of March 14, 1975, was tried non-jury as to liability. After thorough review of the record and the law applicable to this case, it is our opinion that judgment should be entered for defendant.

FACTS

Donovan, a Minnesota Corporation and subsidiary of Donovan Companies, Inc., is a multi-business entity which engages

[1] General Telephone Company of Florida was also originally named a defendant but has since been dismissed as a party.

in various types of construction work. Two of Donovan's business endeavors, which involve electrical construction and selling telephone equipment and service, are germane to this litigation.

FTC is a telephone company which conducts business pursuant to a Certificate of Public Convenience and Necessity issued by the Florida Public Service Commission (FPSC)[2] FTC serves a central geographic region of Florida covering some nine counties and 6,000 square miles.[3] It is headquartered in Ocala and has additional offices in Leesburg, Florida. FTC provides local service within its operating territory and long distance service outside its territory through its interconnection with the facilities of other telephone companies throughout the United States.

General Telephone Company of Florida (GTF) is a telephone company operating under a Certificate of Public Convenience and Necessity. It too serves a central but different geographic region of Florida[4] and provides both local and long distance (through interconnection) service to its customers.

To properly understand Donovan's theories of liability it is necessary to summarize certain background information pertinent to the telecommunications industry.

Industry Change

American Telephone and Telegraph Company (A T & T), through its many holdings, provides the largest network of telecommunications in the country. Either directly or through the use of interconnection, A T & T provides long distance

[2] *See* Plaintiff's Exhibit (PX) No. 1.
[3] *See* PX No. 2.
[4] *Id.*

service in the United States and throughout the world. Domestic telephone service is of course supplemented by many independent telephone companies (non-A T & T affiliated) such as GTF and FTC and the entire network is statutorily regulated by the Federal Communications Commission (FCC).[5] Under statutory mandate telephone companies are required to file tariffs with the FCC showing service charges and the classifications, practices, and regulations justifying those charges.

Over the years telephone companies—whether A T & T controlled, Bell System operated or independent—have refused to connect privately-owned telephone equipment with their facilities, the reasons for which are many and diverse. As noted by an FCC Hearing Examiner:

> The telephone companies historically have opposed interconnection. They have contended that they are now solely responsible for the quality of telephone service, and, if interconnection were to place a portion of the communications path beyond their authority, they could no longer accept responsibility for the quality of communication. They have further contended that such divided control would hamper innovation and increase the cost to the public of basic telephone service. For these reasons the telephone companies have opposed the use of interconnection devices, including the Carterphone.[6]

At any rate, for reasons not here particularly pertinent, the death knell for this industry-wide resistance was sounded on

[5] *See* 47 U.S.C. §151 *et seq.*
[6] *In re Use of the Carterphone Service in Message Toll Telephone Service*, 13 F.C.C. 2d 430, 439 (Aug. 30, 1967). A copy of this decision, which found existing tariff regulations that allowed phone companies to resist interconnection to be unlawful, has been introduced in evidence as PX No. 6.

June 26, 1968 when the FCC, in sustaining the Hearing Examiner, held that the tariff regulations which prohibited use of interconnection devices were unlawful.[7]

Accordingly, a new branch of the telecommunications industry had been created and private companies were soon to assume a new competitive stance in this field. That is, through *interconnection* with the equipment operated by the already established telephone companies, they began to sell and lease their own telephone equipment. In short, the stage was set for private concerns to compete with the telephone "establishment".

Resistance

The FPSC regulates the telephone industry in Florida. Being comparable to the FCC insofar as setting requirements for members of the industry within its jurisdiction, the FPSC likewise required telephone companies to file tariffs which show rates, charges, contracts and regulations that apply to services rendered and equipment supplied by them. We do not believe it is necessary to detail the relevant events subsequent to the *Carterphone* decision which bear on FTC's reaction to it. Suffice it to say that FTC was aware of and, like most of the established telephone companies, hostile to it. Moreover, FTC was one of the last Florida companies to modify its tariffs to allow for interconnection of privately owned equipment, this being done in December of 1971.[8]

Because of the certificate issued by the FPSC, FTC had a lawful monopoly on the telephone service within its operat-

[7] *In re Use of the Carterphone Device in Message Toll Telephone Service*, 13 F.C.C. 2d 420 (June 26, 1968) (PX No. 7), *petition for reconsideration denied*, 14 F.C.C. 2d 571 (September 11, 1968).

[8] Actually such revision was prompted by a hotel association's filing a petition with the FPSC which charged that FTC's extant tariff was deficient for not reasonably accommodating interconnection of privately owned or leased equipment.

ing territory. Subsequent to the *Carterphone* decision it continued to dominate the terminal telephone equipment market in its geographic region at times pertinent to the events which fostered this controversy. Before describing those events we believe a brief look at the parties' organizational structure is in order.

Corporate Background

FTC, which was founded by Otto Wettstein, Jr. during the twenties, has been over the years a phone company of modest dimension. Operating for the most part in rural areas the company underwent no significant changes, except for steady growth, until Max E. Wettstein replaced his founding father as President. Mr. Wettstein is presently Chairman of the Board. The most important man, however, as respects this litigation is Mr. Claude E. Locke, FTC's Vice President of Operations. Mr. Locke had responsibility for all operations relating to commercial service; *ie.*, construction, installation and maintenance of all outside facilities including cables, poles, wire and all telephone and other terminal equipment owned by FTC. Donovan provided skilled contract labor to FTC for this phase of defendant's operations.

While the outside plant superintendent (O.P.S.) played an important role in FTC's dealings with independent contractors —*e.g.* retaining their services, negotiating rates, *etc.*—it was Locke who possessed ultimate authority in approving the O.P.S.'s recommendations. In short it was Locke from whom company policy could be fashioned.

While many of Donovan's diversified business interests were controlled by its President, Mr. John Donovan, direct supervision over telephone construction work rested with Mr. S. V. Christenson, Vice President. Accounting to him was Mr. Robert Berroyer, who managed this particular phase in the

Florida area; actually, Berroyer was the local representative with authority. In turn he was assisted by a field superintendent for the FTC area. This superintendent's principal job was to coordinate the supply of Donovan personnel with FTC's demand on a daily basis.

Electrical Construction Market

As noted earlier only two aspects of Donovan's many diversified business operations pertain to this lawsuit: (1) the telephone terminal service business (terminal equipment market) spawned by *Carterphone* which we shall discuss later, and (2) electrical construction (construction market) as it pertains to telephone installation and maintenance on a system-wide scale. The latter enterprise consisted of providing skilled services necessary for the installation of telephone service to customers of the various telephone companies that contracted with Donovan. It is this end of the Donovan business which was terminated by FTC.

Between June of 1969 and March of 1972—the date of termination—Donovan supplied FTC with craftsmen, *ie.*, splicers and installers, and equipment. Similar contract labor was also supplied to GTF. Much of the work involved setting up telephone switching equipment and installing of cable.[9] With the sharp upsurge of FTC's business, given monumental impetus by the Walt Disney World complex then under construction near Orlando, it was just not possible for FTC's work force to handle the necessary construction. Thus, FTC sought independent contractors such as Donovan, Hoyt-Edwards Company, and Burnup & Simms Company, to supplement its regular labor force, as did other telephone companies

[9] For a detailed account of what services and supplies Donovan's craftsmen provided, *see* Tr. 44-6, 457.

experiencing similar business demands. In hiring such contractors it appears to have been the established practice of FTC to execute a letter agreement which was modified from time to time as FTC's demands fluctuated and/or Donovan's service charges changed.[10] Under this agreement Donovan provided FTC with construction service until March of 1972 when the termination was effected.

Telephone Terminal Equipment Market

Donovan made the decision to enter the telephone service business, and thus become a potential competitor of FTC, in December of 1971. This new venture operated under the name Independent Business Telephones but provided its services solely in the Tampa area which is beyond FTC's operating territory; thus, it had not entered FTC's geographic market. In fact, as will be discussed later, Donovan had no intention of competing with FTC. This part of plaintiff's business consisted of selling and leasing telephone equipment which included, *inter alia*, automatic branch exchange and key telephone systems sold by FTC and GTF.

The Termination

For reasons that will be stated, we believe the parties placed undue importance on this part of the case. Donovan contends that its construction services were terminated because of its decision to enter the telephone business which made it a potential competitor in FTC's terminal equipment market. FTC maintains that Donovan was let go for business reasons.

On March 3, 1972 FTC began to terminate Donovan's construction service when twenty men were let go. On March 10 twenty-six had been similarly notified and those remaining (twenty-eight) were discharged on March 17. In much the

[10] *See e.g.*, PX Nos. 10-14.

same fashion—summarily, that is—GTF terminated Donovan on February 18, 1972. Berroyer first contacted the O.P.S. on March 7 to inquire about the termination and, subsequently, notified Christenson of this development who in turn apprised Mr. Donovan.

A series of telephone conversations and a meeting (on March 24) between Berroyer, Christenson and Locke followed. What exactly was said during these events is in dispute[11] and, not suprisingly, is crucial to determining *why* FTC ceased doing business with Donovan. However, after careful consideration of all the facts presented and in view of the law we believe controlling in this matter, the Court need not decide this disputed issue of fact. Under undisputed facts on the record plaintiff cannot recover as a matter of law.

DISCUSSION

Donovan proceeds under the conspiracy and monopoly sections of the Sherman Act.[12] We shall discuss each theory of liability separately.

Conspiracy

Conspiracies or combinations in restraint of trade clearly are illegal under §1 so long as there is shown to be a plurality of actors who acted in concert for an unlawful purpose. *Theater Enterprises, Inc. v. Paramount Film Distributing*

[11] The testimony of Wettstein and Locke significantly differs from that of Donovan, Christenson and Berroyer.

[12] 15 U.S.C. §1 provides in pertinent part:

> Every contract, combination * * * or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal . . .

15 U.S.C. §2 provides in pertinent part:

> Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States * * * shall be deemed guilty. . .

Corp. 346 U.S. 537 (1954); *Kiefer-Stewart Co. v. Joseph E. Seagram & Sons, Inc.*, 340 U.S. 211 (1951). Within the context of this case we note that *concerted* refusals to deal have been deemed violations of §1 when their objectives have been to keep new competition out of a market, *Radiant Burners, Inc. v. Peoples Gas Light & Coke Co.*, 364 U.S. 656 (1961); to create a monopoly in a relevant product market, *Poller v. Columbia Broadcasting System*, 368 U.S. 464 (1962); or to maintain extant market control, *Eastman Kodak Co. v. Southern Photo Materials Co.*, 273 U.S. 359 (1927).

Examination of the evidence leads this Court to conclude that the §1 claims must fail because Donovan failed to prove either of two alleged conspiracies. Plaintiff theorizes that FTC conspired with GTF to restrain trade in (and monopolize) one line of commerce (the terminal equipment market) while FTC combined with Hoyt Williams to restrain trade in another line of commerce (the construction market). While plaintiff admitted, during oral argument, that the proof on either score was rather weak the assertion nevertheless surfaces that inferences can be drawn from the evidence—all of it circumstantial—to support a finding favorable to it on a conspiracy theory.

Except for the fact that both GTF and FTC terminated plaintiff within one month, there is not any proof on this record that they acted in concert. Similarly the facts with regard to Hoyt Edwards are skimpy. A mere showing that many of Donovan's workers almost immediately found the same kind of employment with Hoyt Edwards is insufficient for this Court to infer that it conspired with FTC to eliminate plain-

tiff, a supplier of cable splicers and installers, as a competitor of Hoyt Edwards.[13]

Reliance for plaintiff's position is placed on *Interstate Circuit, Inc., v. United States,* 306 U.S. 208 (1939). While a conspiracy can be inferred from a similar and compatible course of conduct we nonetheless believe plaintiff's proof falls short of the mark. We note that in *Interstate Circuit* the defendant did not deny complicity in the illegal agreement. Here FTC denies any mutual involvement with GTC or Hoyt Edwards in deciding to terminate Donovan. Moreover, since conscious parallel business behavior does not conclusively establish an illegal agreement under §1, it is for the fact finder to determine the existence of a conspiracy. *See Theater Enterprises, Inc. v. Paramount Film Distributing Corp., supra* at 541. Judgment shall therefore be granted for defendant on the §1 conspiracy claims.

Monopoly[14]

We now come to the delicate legal issue raised by this proceeding, to wit: Does a monopolist, in terminating business dealings with a potential competitor, *for whatever reasons,* violate §2 of the Sherman Act when the refusal to deal has no effect on the relevant market? The answer to this question is no.

We believe part of Donovan's difficulty lies in its designation of *what market* is relevant to the §2 claims being ad-

[13] Moreover, the Court fails to see how such an agreement would benefit FTC since it would be to defendant's economic advantage to deal with three independent contractors instead of two. This observation is illuminated by the fact that Hoyt Edwards' rates *increased* after Donovan was discharged as a supplier of construction labor.

[14] For the reasons stated earlier we shall not address the "conspiracy to monopolize claim" being asserted by Donovan under §2.

vanced here.[15] Any plaintiff, of course, must establish the relevant product and geographic markets in a §2 monopolization case. The product market circumscribes the commodity or service in which the parties compete (potentially here) while the geographic market merely delimits the territory in which such competition exists. *United States v. du Pont & Co.,* 351 U.S. 377 (1956). In this case we know that the relevant product market involves terminal business telephone equipment. The relevant geographic market is confined to FTC's franchised operating area.

Monopoly power is also a necessary predicate to sustaining a charge of monopolization. *United States v. Grinnell Corp.,* 384 U.S. 563 (1966). FTC, being a public utility and regulated by the FPSC, has a legally-sanctioned monopoly on marketing terminal business telephone equipment in its territory. This is not to say, however, that FTC wields monopoly power.

Admittedly, the record indicates that FTC possessed over a 90% share of this market at times material to this litigation and such an amount is sufficient to infer monopoly power, *see e.g., United States v. Grinnell Corp., supra; United States v. Aluminum Co. of America,* 148 F. 2d 416 (2 Cir. 1945), in an appropriate case. Such numerical determinations are only reliable when the facts do not provide us with information to reconcile one's position in the relevant market with the more basic definition of monopoly power, *ie.,* "the power

[15] On brief Donovan seems to attach importance to the "construction" market in which it competed with two other labor contractors. However, foreclosing plaintiff from participation in that market, while it does show harm in the form of lost revenue [every refusal to deal will arguably cause pecuniary loss, *see e.g., Burdett Sound, Inc. v. Altec Corp.,* 515 F. 2d 1245 (5 Cir. 1975).] was *not* the reason claimed nor proved to be responsible for the termination. The damaging results or potential results must be linked to the market in which the monopolist seeks to preserve. *See* discussion at pp. 13-17, *infra.*

to control prices or exclude competition." *du Pont, supra* at 391.

While an unfriendly motive coupled with ostensible market power more often than not results in anticompetitive conduct, those factors cannot be perfunctorily read to mean a §2 violation has been committed. We believe a close look at the facts and law is necessary to reach the correct result. Our concern for detail is sharpened by the following Supreme Court passage found in *United States v. Griffith*, 334 U.S. 100, 106-07 (1948):

> Section 2 is not restricted to conspiracies or combinations to monopolize but also makes it a crime for any person to monopolize or to attempt to monopolize any part of interstate or foreign trade or commerce. So it is that monopoly power, whether lawfully or unlawfully acquired, may itself constitute an evil and stand condemned under §2 even though it remains unexercised. For §2 of the Act is aimed, *inter alia*, at the acquisition or retention of effective market control. * * * Hence the existence of power "to exclude competition when it is desired to do so" is itself a violation of §2, provided it is coupled with the purpose or intent to exercise that power. * * * It is indeed "unreasonable, *per se*, to foreclose competitors from any substantial market." * * * The anti-trust laws are as much violated by the prevention of competition as by its destruction. * * * It follows *a fortiori* that the *use of monopoly power*, however lawfully acquired, to *foreclose competition*, to *gain* a competitive advantage, or to *destroy* a competitor, is unlawful. (Emphasis added.) (Citations omitted.) (Footnotes omitted.)

We also must view FTC's actions in the context of an "attempt to monopolize" charge under §2 Sherman. That is to say, if FTC's refusal to deal with Donovan did not actually constitute an act in furtherance of monopoly extant, did such conduct amount to an *attempt* to achieve monopoly in the relevant terminal equipment market. In *American Tobacco Co. v. United States*, 328 U.S. 781, 785 (1946) the Supreme Court stated:

> The phrase "attempt to monopolize" means the employment of methods, means and practices which would, if successful, accomplish monopolization, and which, though falling short, nevertheless approach so close as to create a dangerous probability of it . . . .

Thus, it would seem that for a violation of this provision of §2, one must show that the "attempt" results in monopoly achievement or comes precariously close to succeeding. Since FTC had a natural monopoly on the relevant market before Donovan's termination one might suggest that an "attempt" claim is inapplicable here. However, if specific intent is present certain conduct can be violatory where the primary objective is to build monopoly or destroy competition. *See Times-Picayune Publishing Co. v. United States*, 345 U.S. 594 (1953); *Lorain Journal Co. v. United States*, 342 U.S. 143 (1951).

In our analysis of this case plaintiff has not established a violation under either provision of §2.

First of all we are dealing with a defendant that provides a regulated service. Much if not all of what FTC could do was dictated by the regulating agency. While FTC certainly had a monopoly on providing terminal equipment in its authorized operating territory, it could not unilaterally or in discretionary fashion control prices. And under the facts as they pertain to Donovan,[16] it could not be said *in vacuo* that FTC had

[16] Every antitrust case must turn upon its own facts. *Maple Flooring Mfg. Ass'n. v. United States*, 268 U.S. 563 (1925).

the power to exclude competition in its terminal equipment market. Theoretically *Carterphone*, in mandating the use of interconnection as the means by which private newcomers to the industry could gain access to the establishment-integrated network– and thus be put in a position to compete in the equipment markets—, compels this conclusion. Realistically, of course, one can envision ways in which FTC might use its monopolistic position to foreclose or impede such competition; however, such uses of monopoly power have not been shown here. To be sure it is the *use* of monopoly power that triggers a §2 charge and we fail to perceive how that prerequisite to recovery can be equated with the refusal to deal *sub judice*. In other words Donovan has not shown that FTC's rejection of its electrical construction services caused Donovan to be hindered in competing with defendant in its terminal equipment market.

Since a unilateral refusal to deal with anyone is legitimate activity so long as such refusal is not made to create or maintain a monopoly, *see United States v. Colgate & Co.*, 250 U.S. 300 (1919), it only seems logical to ascertain the results of the action taken by the monopolist.

As will shortly be seen the inquiry here is directly related to the prior discussion of monopoly power. And again we are troubled by the fact that FTC's assailed conduct did not have any discernible anticompetitive effect on the relevant market in which Donovan had become a potential entrant. Except for the testimony of plaintiff's President which indicates Donovan lost "substantial" income from the termination,[17] there is nothing in the record to suggest that plaintiff was "destroyed", "precluded", or even hampered in an effort to enter the terminal business telephone market in FTC's territory: on the contrary, Donovan makes no such claim and in fact had no intention of competing with FTC. We place a great deal of importance on this revelation because examination of cases factually similar to the one at issue supports our belief that plaintiff must be *harmed* in relation to the market entered or potentially entered—*ie.*, the market the monopolist considers to be *threatened*. We now turn to three cases that speak for this view.

[17] Tr. 398.

In *Otter Tail Power Co. v. United States*, 410 U.S. 366 (1973), a regulated utility company had a virtual monopoly on the retailing of electric power to 465 towns in a three state area. Some of these towns were permitted to establish their own "municipal systems" for direct power distribution to local consumers. Each of these towns would then become a competitor of Otter Tail inasmuch as each municipal system would retail the electricity to its own citizenry. To become power retailers each town had to purchase electricity at wholesale which necessitated the *interconnection* of their respective systems with existing transmission lines. Otter Tail was the only party with existing transmission lines and it refused to sell energy to the municipal systems at wholesale. It also refused to "wheel" (deliver) power from other wholesale suppliers.

After ruling that Otter Tail was not immune from antitrust regulation the Court stated:

> The record makes abundantly clear that Otter Tail *used its monopoly power* in the towns in its service area to *foreclose competition or gain a competitive advantage, or to destroy a competitor*, all in violation of the antitrust laws. See *United States v. Griffith*, 334 U.S. 100, 107. * * * Use of monopoly power "to destroy threat-

> ened competition" is a violation of the "attempt to monopolize" clause of §2 of the Sherman Act. *Lorain Journal v. United States,* 342 U.S. 143, 154; *Eastman Kodak Co. v. Southern Photo Materials Co.,* 273 U.S. 359, 375.

Otter Tail, supra at 377. (Emphasis added.) Clearly Otter Tail's use of monopoly power had an anticompetitive *effect* on the relevant market it monopolized.

The second case, *Lorain Journal Co. v. United States,* 342 U.S. 143 (1951), is different in two respects. Here it was determined that 1) the defendant refused to deal with third parties and 2) such conduct did not preclude but seriously undermined competition. A newspaper publisher owning the only daily newspaper in Lorain, Ohio had a monopoly on merchant advertising in that city. Quite naturally the publisher became miffed when a local concern was granted FCC permission to establish a radio station which, in addition to broadcasting news, disseminated advertisements similar to those published by the Journal. Thus, when many of the Journal's customers also began to advertise over the radio station, the publisher reacted by refusing to accept local advertising from any party using the radio station for local advertising. Significantly the High Court notes that—

> [b]ecause of the Journal's complete daily newspaper monopoly of local advertising in Lorain and its practically indispensable coverage of 99% of the Lorain families, this practice *forced numerous advertisers to refrain from using WEOL* [*the station*] *for local advertising.* That result not only reduced the number of customers available to WEOL in the field of local Lorain advertising and strengthened the Journal's monopoly in that field, but

> more significantly tended to *destroy and eliminate* WEOL altogether.

Lorain Journal, supra at 149-50. (Emphasis added.) The Court held that such conduct constituted a violation of the "monopolization" and "attempt" provisions of §2. Note that while the publisher refused to deal, not with the station but with the competitors' mutual customers, such conduct did amount to action which at least severely lessened the agency's ability to compete with the publisher.[18] *See Eastman Kodak Co. v. Southern Photo Materials Co., supra,* where the same effect obtained when the monopolist refused to deal with the competitor reasonably.

The Fifth Circuit's most enlightening refusal to deal case is *Six Twenty-Nine Productions, Inc. v. Rollins Telecasting, Inc.,* 365 F. 2d 478 (5 Cir. 1966). This case involved a television station which broadcasted commercial advertising in certain parts of Florida and Alabama. Being the only TV station in Pensacola, Florida it had a natural monopoly on all advertising desired for transmission over video airwaves within its broadcast limits. Prior to plaintiff's entering the advertising business defendant aired commercials prepared either by it or the three licensed advertising agencies it recognized in Pensacola. For those commercial slots handled, but not directly prepared and sold, by the station a 15% commission was paid to the referral agency making the placement.

After plaintiff commenced operation a local mobile home business, which had previously advertised directly through the station, employed the plaintiff as its advertising agency. The station, in refusing to recognize the plaintiff as a qualified agency, foreclosed the attempt to have a commercial aired

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[18] This was due to the fact that WEOL derived almost all of its income from advertising. *Lorain Journal, supra* at 148.

by agency placement. In reversing the district court's granting of summary judgment for the station the appellate court held that the complaint did state a claim under §2. In reviewing what the plaintiff had alleged the court added a paragraph that, again, we feel has particular importance with respect to refusals to deal in the context of a §2 charge:

> The complaint further alleged that the standards set up by the defendant were for the express purpose of *preventing the plaintiff from engaging in the business of an advertising agency* and served to destroy competition by plaintiff and in fact rendered transaction of business by plaintiff impossible.

Six Twenty-Nine Productions, supra at 481. (Emphasis added.) Thus the Court held that a §2 claim was made out where the refusal to deal prevented the plaintiff agency from competing with the TV station in the commercial preparation market.

As can be seen by comparison with these cases, what Donovan has proven does not measure up to a violation under §2. In all three cases each refusal to deal was determined to be a use of monopoly power. Here the refusal to deal was not a use of monopoly power simply because it did not—and could not—have the effect of excluding competition. Significantly, in all three cases the defendants' refusal to deal *resulted* either in the target competitor's being rendered unable to compete (*Otter Tail* and *Six Twenty-Nine*) or seriously weakened in its ability to compete (*Lorain Journal*)[19] with the respective defendants in the relevant markets. Here Donovan was not—and could not be—precluded from competing with FTC.

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[19] In the case before us electrical construction was but one enterprise from which Donovan derived revenues the diminishing of which we find did not impair its ability to enter FTC's terminal equipment market.

Our assessment of this case is also compatible with established law which distinguishes between conduct that arguably fits within the statutory language and that which is truly actionable. *Cf. Credit Bureau Reports, Inc. v. Retail Credit Co.*, 476 F.2d 989, 992, *petition for rehearing denied*, 478 F. 2d 1402 (5 Cir. 1973) (*en banc*). It must be realized that we are dealing with a private plaintiff proceeding under §4 of the Clayton Act, 15 U.S.C. §15, for treble damages; thus, the anticompetitive effect wrought by the challenged conduct must cause harm to the litigant for which compensation is warranted. *See Credit Bureau Reports, supra* at 992. Plaintiff simply did not demonstrate that FTC's refusal to deal produced an anticompetitive impact which is redressable under §2 of the Sherman Act.

Accordingly, judgment shall be entered for defendant on the monopolization claims.

Findings of fact and conclusions of law have not been separately stated but are included in the body of the foregoing opinion as specifically authorized by 52(a) of the Federal Rules of Civil Procedure.

An appropriate order shall be entered.

Dated: November 1st, 1976.

APPENDIX B

DONOVAN CONSTRUCTION COMPANY OF MINNESOTA, a corporation,

Plaintiff-Appellant,

vs.

FLORIDA TELEPHONE CORPORATION, a corporation,

Defendant-Appellee.

No. 76-4428.

United States Court of Appeals,
Fifth Circuit.
Dec. 22, 1977.

Antitrust action was brought charging that corporate defendant had monopolized or attempted to monopolize interconnect business. The United States District Court for the Middle District of Florida, John L. Miller, J., entered a judgment in favor of defendant, and plaintiff appealed. The Court of Appeals held that plaintiff which did not deal in market where alleged antitrust violation occurred or intend to enter such market did not have standing to sue under antitrust laws.

Affirmed.

1. Monopolies—28(1.6)

To have standing to sue for treble damages under Clayton Act, plaintiff must have suffered an injury of type antitrust laws were intended to prevent. Sherman Anti-Trust Act, § 2, 15 U.S.C.A. § 2; Clayton Act, § 4, 15 U.S.C.A. § 15.

2. Monopolies—28(1.6)

To have standing to sue for treble damages under Clayton Act for antitrust violation plaintiff must be within sector of

economy threatened by breakdown in competitive conditions. Sherman Anti-Trust Act, § 2, 15 U.S.C.A. § 2; Clayton Act, § 4, 15 U.S.C.A. § 15.

3. Monopolies—28(1.6)

Plaintiff which did not deal in market where alleged antitrust violation occurred or intend to enter such market did not have standing to sue under antitrust laws for damages for alleged antitrust violation Sherman Anti-Trust Act, § 2, 15 U.S.C.A. § 2; Clayton Act, § 4, 15 U.S.C.A. § 15.

Appeal from the United States District Court for the Middle District of Florida.

Before JONES, GODBOLD and GEE, Circuit Judges.

PER CURIAM:

In this antitrust case, the defendant, Florida Telephone Corporation (FTC), provides telephone service to a central Florida region. FTC also sells terminal telephone equipment in its region. This is sometimes called the "interconnect business." The plaintiff, Donovan Construction Company engages in many businesses. For 2 1/2 years Donovan provided FTC with electrical construction services, but shortly after Donovan decided to enter the interconnect business in another region of Florida FTC terminated their relationship. Donovan sued under the antitrust laws for the damage it suffered in its electrical construction business, arguing among other things that FTC had monopolized or attempted to monopolize the interconnect business. 15 U.S.C. § 2.[1] The parties stipulated that FTC's region was a relevant market for the interconnect business, and the district court found that Donovan

[1] Donovan has limited its appeal of the district court's judgment in favor of FTC to the claims of monopolization or attempted monopolization.

did not intend to enter that market. We hold that Donovan lacks standing to sue under the antitrust laws.

[1-3] To have standing to sue for treble damages under Clayton Act § 4, 15 U.S.C. § 15, a plaintiff must have suffered an injury of the type the antitrust laws were intended to prevent. *Brunswick Corp. v. Pueblo Bowl-O-Mat, Inc.*, 429 U.S. 477, 97 S.Ct. 690, 50 L.Ed.2d 701 (1977). We have required that the plaintiff must be within the target area. That is, the plaintiff must be within the sector of the economy threatened by a breakdown in competitive conditions. *Tugboat, Inc. v. Mobile Transportation Co.*, 534 F.2d 1172 (CA5, 1976); *Southern Concrete Co. v. U. S. Steel Corp.*, 535 F.2d 313 (CA5, 1976); *Jeffrey v. Southwestern Bell*, 518 F.2d 1129 (CA5, 1975); *Battle v. Liberty National Life Insurance Co.*, 493 F.2d 39 (CA5, 1974); *Dailey v. Quality School Plan, Inc.*, 380 F.2d 484 (CA5, 1967). The alleged antitrust violation threatened the interconnect business in FTC's region. Because Donovan did not in any way deal in that market, or intend to do so, Donovan was not within the sector of the economy threatened by the alleged violation.

The judgment of the the district court is AFFIRMED.

APPENDIX C

UNITED STATES COURT OF APPEALS
FOR THE FIFTH CIRCUIT

No. 76-4428

D. C. Docket No. CA-72-733-T-K

DONOVAN CONSTRUCTION COMPANY
OF MINNESOTA, A Corporation,
Plaintiff-Appellant,

vs.

FLORIDA TELEPHONE CORPORATION,
A Corporation,
Defendant-Appellee.

Appeal from the United States District Court for the
Middle District of Florida

Before JONES, GODBOLD and GEE, Circuit Judges.

JUDGMENT

This cause came on to be heard on the transcript of the record from the United States District Court for the Middle District of Florida, and was argued by counsel;

ON CONSIDERATION WHEREOF, It is now here ordered and adjudged by this Court that the judgment of the said District Court in this cause be, and the same is hereby, affirmed;

It is further ordered that plaintiff-appellant pay to defendant-appellee, the costs on appeal to be taxed by the Clerk of this Court.

December 22, 1977

Issued As Mandate:

APPENDIX D

IN THE UNITED STATES COURT OF APPEALS
FOR THE FIFTH CIRCUIT

No. 76-4428

DONOVAN CONSTRUCTION COMPANY OF
MINNESOTA, A Corporation,
Plaintiff-Appellant,

vs.

FLORIDA TELEPHONE CORPORATION,
A Corporation,
Defendant-Appellee.

Appeal from the United States District Court for the
Middle District of Florida

ON PETITION FOR REHEARING
(January 27, 1978)

Before JONES, GODBOLD and GEE, Circuit Judges.

PER CURIAM:

IT IS ORDERED that the petition for rehearing filed in the above entitled and numbered cause be and the same is hereby DENIED.

Entered for the Court:
JAMES BOLAND
United States Circuit Judge